GS Gill Sdn Bhd v Descente Ltd

FEDERAL COURT (PUTRAJAYA) — CIVIL APPEAL NO 02(F)-46 OF 2008(W)
ZULKEFLI, JAMES FOONG AND HELILIAH FCJJ
12 APRIL 2010

Civil Procedure — Injunction — Damages — Undertaking as to damages — Whether undertaking given to court or other party — Power of trial court to enforce undertaking as to damages — Whether power discretionary — Whether discretion correctly exercised

Contract — Terms — Construction — Whether term ought to be given purposive interpretation that made good commercial sense

The plaintiff was the owner of the 'Le Coq Sportif' trademark ('the mark') in respect of sports apparel. It entered an agreement with the defendant to manufacture and retail goods bearing the mark. However, the agreement prohibited the defendant from exporting the goods to countries outside Malaysia and Singapore. The plaintiff later discovered Japanese goods manufactured in Malaysia bearing the mark. The plaintiff's agent was also able to purchase from the defendant at its premises, goods bearing the mark that were shipped to Hong Kong at the agent's request. The plaintiff thereafter issued a writ against the defendant claiming a breach of the agreement. The plaintiff obtained ex parte Anton Pillar orders against the defendant, which were subsequently set aside. The defendant also counterclaimed against the plaintiff. In the High Court, the judge, inter alia, allowed the plaintiff's claim and dismissed the defendant's counterclaim. The judge also refused to enforce the plaintiff's undertaking as to damages in the defendant's favour despite the fact that the Anton Pillar orders were set aside. The Court of Appeal dismissed the defendant's appeal and the defendant sought leave to appeal to the Federal Court. The Federal Court allowed the defendant leave to appeal on two questions, to wit: (i) whether the defendant was entitled as of right to claim damages on the plaintiff's undertaking as to damages pursuant to the ex parte Anton Pillar orders; and (ii) whether the defendant's over the counter sale of goods to the plaintiff's agent in the defendant's premises at Kuala Lumpur and the subsequent shipping of the goods to Hong Kong at the agent's request constituted an export sale of the goods outside Malaysia. The Federal Court chose to determine the second question first.

Held, dismissing the appeal:

(1) Clause 9.7 of the agreement prohibited the defendant directly or

indirectly from exporting the goods outside Malaysia and Singapore. In the instant case, no reasonable man having considered the entire transaction would say that the sale was not an export sale directly or indirectly. The defendant's liberal interpretation of cl 9.7 that any sale over the counter did not infringe cl 9.7, was against the spirit and intention of the agreement, which was that the parties accept territorial restrictions in their transactions. Clause 9.7 had to be given a purposive interpretation that made good commercial sense on what was agreed. The defendant should not have sought ways and means to bypass the territorial restrictions (see paras 21–22); *Investors Compensation Scheme v West Bromwick Building Society* [1998] 1 All ER 98 referred; *Miramar Maritime Corporation v Holborn Oil Trading Ltd* [1984] AC 676 referred; *Antaios Cia Naviera SA v Salen Rederierna* [1984] 3 All ER 229 referred.

(2) Section 5(1) of the Sale of Goods Act 1957 could not assist the defendant. Even if a sale was made or completed at the counter, the question remained as to whether the sale violated cl 9.7 of the agreement. This depended on the nature of the sale and in the instant case, the defendant had exported the products directly or indirectly outside its territorial limits (see para 24).

(3) Whether an inquiry as to damages should be ordered lies with the discretion of the trial judge. It was not for the defendant to insist that such inquiry should be made. The undertaking to damages for an interlocutory injunction is given to the court and not to the defendant. The trial judge is the best equipped to decide on whether to order an inquiry as to damages since he has a adequate knowledge of the facts of the case. As a general rule, if an interlocutory injunction is wrongly granted, the trial judge should make an order for inquiry to damages on the undertaking given by the plaintiff for the interlocutory injunction. However, if there are special circumstances, the trial judge may exercise his discretion to refuse ordering such inquiry. Much depends on the facts and circumstances of the case (see para 32); *Cheltenham & Gloucester Building Society (formerly Portsmouth Building Society) v Ricketts and others* [1993] 1 WLR 1545 followed.

(4) In the instant case, the discretion of the trial judge in refusing to order an inquiry to damages ought not be disturbed for the following reasons: (a) the plaintiff had merits in its application for an interim injunction and the earlier ex parte Anton Pillar orders were set aside merely on technical grounds; (b) the defendant had violated the ex parte orders; and (c) the defendant had secretly exported the products outside its territorial limits. All the facts and circumstances had to be taken into consideration in the exercise of the trial judge's discretion (see paras 33–35).

[Bahasa Malaysia summary

Plaintif adalah pemilik tanda dagangan 'Le Coq Sportif' ('tanda tersebut') berkaitan dengan pakaian sukan. Ia telah memasuki perjanjian dengan defendan untuk membuat dan menjual secara runcit barangan yang mempunyai tanda tersebut. Walau bagaimanapun, perjanjian itu melarang defendan daripada mengeksport barangan tersebut ke negara-negara di luar Malaysia dan Singapura. Plaintif kemudian mendapati barangan buatan Jepun yang dibuat di Malaysia mempunyai tanda tersebut. Ejen plaintif juga berjaya membeli barangan yang mempunyai tanda tersebut daripada defendan di premisnya, yang telah dibawa melalui kapal laut ke Hong Kong atas permintaan ejen itu. Berikutan itu plaintif telah mengeluarkan writ terhadap defendan menuntut pelanggaran perjanjian. Plaintif telah memperoleh perintah-perintah Anton Pillar ex parte terhadap defendan, yang kemudiannya telah diketepikan. Defendan juga telah menuntut balas terhadap plaintif. Di Mahkamah Tinggi, hakim, antara lain, telah membenarkan tuntutan plaintif dan menolak tuntutan balas defendan. Hakim juga enggan menguatkuasakan akujanji plaintif berkaitan ganti rugi yang menyebelahi defendan meskipun perintah-perintah Anton Pillar itu telah diketepikan. Mahkamah Rayuan telah menolak rayuan defendan dan defendan memohon kebenaran untuk merayu ke Mahkamah Persekutuan. Mahkamah Persekutuan telah memberi defendan kebenaran untuk merayu atas dua persoalan, iaitu: (i) sama ada defendan berhak untuk menuntut ganti rugi berdasarkan akujanji plaintif berkaitan ganti rugi menurut perintah-perintah Anton Pillar ex parte; dan (ii) sama ada jualan barangan melalui kaunter defendan kepada ejen plaintif di premis defendan di Kuala Lumpur dan selanjutnya penghantaran barangan tersebut melalui kapal laut ke Hong Kong atas permintaan ejen itu membentuk jualan eksport barangan di luar Malaysia. Mahkamah Persekutuan memilih untuk menentukan persoalan kedua terlebih dahulu.

Diputuskan, menolak rayuan:

(1) Fasal 9.7 perjanjian melarang defendan secara langsung atau secara tidak langsung daripada mengeksport barangan tersebut ke luar Malaysia dan Singapura. Dalam kes ini, seorang yang waras yang membuat pertimbangan terhadap keseluruhan transaksi tersebut tidak akan berkata bahawa jualan itu bukan jualan eksport secara langsung atau tidak langsung. Pentafsiran liberal defendan terhadap fasal 9.7 bahawa apa-apa jualan melalui kaunter tidak melanggar fasal 9.7, melanggar maksud tersirat dan tujuan perjanjian itu, yang mana pihak-pihak menerima sekatan wilayah dalam transaksi mereka. Fasal 9.7 hendaklah diberikan pentafsiran pendekatan yang membawa maksud komersial yang baik tentang apa yang telah dipersetujui. Defendan tidak patut mencari jalan dan cara untuk mengelak daripada sekatan wilayah tersebut (lihat perenggan 21–22); *Investors*

Compensation Scheme v West Bromwick Building Society [1998] 1 All ER 98 dirujuk; *Miramar Maritime Corporation v Holborn Oil Trading Ltd* [1984] AC 676 dirujuk; dan *Antaios Cia Naviera SA v Salen Rederierna* [1984] 3 All ER 229 dirujuk.

(2) Seksyen 5(1) Akta Jualan Barangan 1957 tidak dapat membantu defendan. Meskipun satu penjualan dibuat atau diselesaikan atas kaunter, persoalan yang kekal adalah sama ada jualan itu melanggar fasal 9.7 perjanjian. Ini bergantung kepada sifat jualan itu dan di dalam kes ini, defendan telah mengeksport produk-produk itu secara langsung atau tidak langsung ke luar batasan wilayahnya (lihat perenggan 24).

(3) Sama ada satu siasatan berkaitan dengan ganti rugi patut diperintahkan bergantung kepada budi bicara hakim perbicaraan. Ia bukan bagi defendan untuk mendesak siasatan sedemikian dilakukan. Akujanji terhadap ganti rugi untuk injunksi interlokutori diberikan kepada mahkamah dan bukan kepada defendan. Hakim perbicaraan adalah yang terbaik untuk memutuskan sama ada untuk memerintahkan siasatan berhubung ganti rugi memandangkan beliau mempunyai pengetahuan yang mencukupi tentang fakta kes. Sebagai rukun am, jika injunksi interlokutori telah salah diberikan, hakim perbicaraan itu patut membuat perintah untuk siasatan berhubung ganti rugi berdasarkan akujanji yang diberikan oleh plaintif untuk injunksi interlokutori itu. Walau bagaimanapun, jika terdapat keadaan istimewa, hakim perbicaraan boleh menggunakan budi bicara beliau untuk tidak memerintah siasatan sedemikian. Banyak bergantung kepada fakta dan keadaan kes (lihat perenggan 32); *Cheltenham & Gloucester Building Society (formerly Portsmouth Building Society) v Ricketts* [1993] 1 WLR 1545 diikut.

(4) Dalam kes ini, budi bicara hakim perbicaraan yang enggan memerintahkan siasatan untuk ganti rugi tidak patut diganggu kerana alasan-alasan berikut: (a) plaintif mempunyai merit dalam permohonannya untuk injunksi interim dan perintah-perintah Anton Pillar ex parte terdahulu itu telah diketepikan hanya atas sebab-sebab teknikal; (b) defendan telah melanggar perintah-perintah ex parte itu; dan (c) defendan telah secara rahsia mengeksport produk-produk tersebut ke luar batasan wilayahnya. Kesemua fakta dan keadaan perlu dipertimbangkan dalam melaksanakan budi bicara hakim perbicaraan (lihat perenggan 33–35).]

Notes

For cases on construction, see 3(1) *Mallal's Digest* (4th Ed, 2010 Reissue) paras 5342–5378.

For cases on damages, see 2(1) *Mallal's Digest* (4th Ed, 2007 Reissue) paras 2924–2932.

Cases referred to

Antaios Cia Naviera SA v Salen Rederierna [1984] 3 All ER 229, HL (refd)
Attorney General of Ontario v Harry (1982) 25 CPC 67 (folld)
Cheltenham & Gloucester Building Society (formerly Portsmouth Building Society) v Ricketts and others [1993] 1 WLR 1545, CA (folld)
Ex parte Hall (1883) 23 Ch D 644, CA (folld)
F Hoffmann-La Roche & Co AG and others v Secretary of State for Trade and Industry [1975] AC 295, HL (refd)
Financiera Avendia v Shiblaq (unreported, 7 November 1990) (refd)
Hessin v Coppin (1874) 21 Gr 253 (folld)
Investors Compensation Scheme v West Bromwick Building Society [1998] 1 All ER 98, HL (refd)
Miramar Maritime Corporation v Holborn Oil Trading Ltd [1984] AC 676, HL (refd)
Modern Transport Company Limited v Duneric Steamship Company [1917] 1 KB 370, CA (folld)
Newby v Harrison (1861) 3 De GF & J 287 (folld)
Smith v Day (1882) 21 Ch D 421, CA (refd)
Upper Canada College v The City of Toronto (1917) 40 OLR 438, SC (folld)

Legislation referred to

Sale of Goods Act 1957 s 5(1)

Appeal from: Civil Appeal No W-02–977 of 2005 (Court of Appeal, Putrajaya)

Jagjit Singh (Melvin Selvam with him) (Jagjit Singh & Co) for the appellant.
Linda Wong (Choy Sook Yee with her) (Tay & Partners) for the respondent.

James Foong FCJ (delivering judgment of the court):

INTRODUCTION

[1] This appeal is by the defendant who is dissatisfied with the decision of the Court of Appeal in dismissing its appeal against the decision of the trial judge who allowed the plaintiff's claim and dismissed the defendant's counterclaim.

FACTS

[2] The facts of this case are rather straight forward and comprehensively described by the Court of Appeal which we append below:

> The defendant is a well known sports goods retailer. It sells all sorts of sports apparel as well. There is a range of sports apparel under the name of 'Le Coq Sportif'. The plaintiff is the owner of that trademark. It entered into three

agreements with the defendant under the terms of which it gave to the defendant the right to manufacture and retail goods carrying Le Coq Sportif mark. They are dated 16 December 1991 ('the first licence agreement'), 4 July 1995 ('the second licence agreement') and 26 August 1996 ('the third licence agreement'). But there was an important restriction imposed on the defendant. It could only market the goods in question within Malaysia and Singapore. Exporting the goods outside these two countries was strictly prohibited. Each of the three agreements contained a clause to that effect. Absent (Aside) the plaintiff's licence it was unlawful for the defendant to do any of the things permitted by the respective licence agreements. At this point I would mention three matters. Although the first licence agreement was expressed to be effective for only a period of 12 months, that is to say, from 1 January 1992 to 31 December 1992, it appears to have been consistently renewed until the second licence agreement was entered into. Next, although the second licence agreement expired on 31 December 1995, the plaintiff permitted the defendant to continue as before until the third licence agreement had been executed. Last, under the terms of the respective agreements, in the event of non-renewal of the licence by the plaintiff, the defendant had 6 months to dispose of the licence goods that it had in its hands.

Now it is evidence that during the currency of the first and second agreements problems arose between the parties. The plaintiff had found Le Coq Sportif goods manufactured in Malaysia in the Japanese market. If such goods were available in Japan, they must in all probability have come from the defendant. For, there were no other sources from which the goods could have come. Not unnaturally, the plaintiff was the most concerned about this and about granting a fresh licence to the defendant whom it suspected of having violated a most important term of the existing agreement. After the third licence agreement had been entered into, the plaintiff decided to put the defendant to test. In 1996, it engaged the services of one Isaac Leung through the firm of M/s Rouse & Co of Hong Kong to assist it to see if the defendant was in fact exporting Le Coq Sportif goods. Isaac Leung came to Kuala Lumpur on two occasions. He first came on 8 August 1996. He went to the defendant's premises with the object of obtaining samples and quotations for Le Coq Sportif goods marketed by the defendant. But he was unable to obtain any. He next came in 30 December 1996, that is to say, on the eve of the expiry of the third licence agreement. On this occasion he was able to obtain samples. He also purchased about US$10,395 worth of Le Coq Sportif goods for which he paid US$5000 straightaway. The subject goods were, at Isaac Leung's request, shipped by the defendant to an address in Hong Kong. He defendant billed Isaac Leung's company in Hong Kong. Thereafter, the plaintiff then issued a writ against the defendant on 16 June 1997 claiming a breach of the third licence agreement. On the same day it obtained an ex parte Anton Pillar injunction. Three days later, that is to say, on 19 June 1997, the plaintiff faxed to the defendant a letter terminating the third licence agreement and on the same day executed the Anton Pillar order on the defendant. Pausing, you may well ask why the plaintiff had to terminate the third licence agreement when, by its terms it lapsed on 31 December 1996. The answer is that although it had lapsed, the parties continued to deal with each other even after the date of its expiry. Neither could be heard to

A say that the agreement had earlier lapsed. If either had tried, he would have been stopped from making the assertion. The plaintiff would have put an end to the contract it had with the defendant.

Returning to the mainstream, after the Anton Pillar proceedings there were several interlocutory matters that were heard and disposed of by the High Court, including an unsuccessful application by the plaintiff to have a director of the defendant punished for contempt. Following an exchange of pleadings, which included a counterclaim by the defendant, and other pre-trial steps, the action came on for trial. After hearing viva voce evidence, the learned trial judge, adjourned the matter for a short while and then, entirely to his own credit, delivered an ex tempore judgment in which he held for the plaintiff and granted it the relief claimed. He also dismissed the defendant's counterclaim.

[3] Pertinent to this appeal, we must stress that subsequent to the ex parte Anton Pillar orders obtained by the plaintiff on the 16 June 1997, the plaintiff took a few days executing it. It was an extensive operation. The products under the licence agreements ('products') in the possession of the defendant amounting to RM6,824,044.44 (according to the defendant's estimates) were seized and carted away by the plaintiff. There were also other repercussions. According to the defendant, as the result of these Anton Pillar orders, the defendant had to abruptly terminate the services of contractors who were appointed by the defendant to manufacture the products locally. As a result, the defendant faces a potential claim of RM957,941.03 from these contractors. In addition, there was the loss of sales of the products amounting to RM40,024,000. And topping this, the defendant's claimed that it has suffered humiliation and loss of goodwill estimated at RM35,000,000.

[4] These losses, according to the defendant, should be compensated by the plaintiff who had given an undertaking for damages when the plaintiff applied for the ex parte Anton Pillar orders. When these orders where set aside by the High Court on 5 January 2004 (due to defective affidavits) the plaintiff should be responsible to pay the defendant the damages suffered.

[5] The trial judge refused to entertain this by stating:

I however, made no order in respect of prayer 2 in those two enclosures, ie encls 18 and 21, for the assessment of damages because of the concerns of the learned counsel for the defendant had voiced in relation to the trial not proceeding expeditiously earlier. The pleadings also clearly disclosed that there was a counterclaim for damages by the defendant.

Therefore it is not expedient, but to exercise common sense to have the whole matter determined during the trial. That was why I did not order an assessment of damages by the registrar at that juncture …

> The evidence adduced on behalf of the plaintiff shows that subsequent sale of the licensed products did take place until as late as April 1998. Therefore, it would appear that the defendant had not suffered damage as a result of the Anton Pillar orders because the defendant continued to trade in the licensed products. However, it is my finding that the defendant should have ceased so trading on 19 June 1997.

[6] This issue was canvassed by the defendant in the Court of Appeal but was rejected in this manner:

> Before I deal with the plaintiff's appeal, there is one final matter that I think that it must be addressed. It has to do with the judge's refusal to enforce the plaintiff's undertaking as to damages by directing an assessment despite the fact that the Anton Pillar injunctions were later set aside. Some complaint was made about this.
>
> It must be stated at once that the power of a court to permit the enforcement of an undertaking as to damages is, like all matters of equitable jurisdiction, discretionary in nature. As *Spry on Equitable Remedies,* (3rd Ed) says:
>
> The better view appears to be that when, in an undertaking of this nature, reference is made to an order as to damages it is intended simply to ensure that there will be an obligation on the part of the plaintiff to abide by any order that it subsequently made directing him to make a pecuniary recompense to the defendant for any inconvenience or loss that he may have suffered.
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> In *F Hoffmann-La Roche & Co AG and others v Secretary of State for Trade and Industry* [1975] AC 295, Lord Diplock said:
>
> The court has no power to compel an applicant for an interim injunction to furnish an undertaking as to damages. All that it can do is to refuse that application if he declines to do so. The undertaking is not given to the defendant but to the court itself. Non-performance of it is contempt of court, not breach of contract, and attracts the remedies available for contempt; but the court exacts the undertaking for the defendant's benefit. It retains a discretion not to enforce the undertaking if it considers that the conduct of the defendant in relation to the obtaining or continuing of the injunction or the enforcement of the undertaking makes it inequitable to do so …
>
> On the facts of the present case, the finding of the learned trial judge that the defendant had violated its solemn promise not to export the subject goods in the circumstances that required the plaintiff to resort to investigative methods at its own costs — because the defendant had concealed it from the plaintiff until Isaac Leung transaction brought it to the surface must have led the learned judge to exercise discretion against the former. This is entirely a proper exercise of discretion by the learned judge. Indeed, I am unable to detect any appealable error in the way in which he exercised discretion. As such I do not think it open to this court to interfere.

[7] As a result of this ruling by the Court of Appeal, this court granted leave to the defendant to pose the first question to us:

A Whether in law the defendant is entitled as of right to claim damages for goods seized and removed from the defendant's premises by the plaintiff who had given an undertaking as to damages pursuant to ex parte Anton Pillar orders dated 17 June 1997 and 1 July 1997 that were set aside by the court upon the applications being made by the defendant.

B

[8] We are of the view that in order to deliberate on this, the merit of the case has to be taken into account. Since the second question relates to the merit of the case, we proposed to answer the second question first.

C **[9]** The second question is:

Whether in law the sales of goods over the counter by the defendant in the defendant's premises in Kuala Lumpur, Malaysia, to an agent of the plaintiff and the subsequent shipping of a portion of the said goods to Hong Kong at the
D specific request of the said agent, constituted an 'EXPORT" sale of all the said goods outside Malaysia by the defendant.

[10] To be more precise, this question requires us to decide on whether the
E defendant's transaction with Isaac Leung was an over the counter sale or an export sale which is prohibited by the third licence agreement which says that the defendant should refrain from exporting directly or indirectly the products outside Malaysia and Singapore.

F **[11]** Our approach is to first examine the terms of the third licence agreement. Clause 9.7 therein provides:

LICENSEE shall refrain from exporting directly or indirectly any PRODUCT outside TERRITORY. LICENSEE guarantees and takes all reasonable steps to ensure that its distributors, AFFILATES and/or subcontractors shall refrain from
G exporting directly or indirectly outside TERRITORY (i) any LICENSED PRODUCT, (ii) any non-authorized product incorporating BRAND NAME and TRADEMARKS and/or (iii) any product incorporating name or logo which is confusingly similar to BRAND NAME or TRADEMARKS

H

[12] And under this licence agreement the following terms are defined:

'Territory' means Malaysia and Singapore

'Brand Name' means LE COQ SPORTIF

I 'Trademarks' means the marks, names and logos listed in Appendix A.

[13] However there is no definition for: 'exporting directly or indirectly any product outside territory' or 'over the counter sale'.

[14] According to the defendant, the sale to Isaac Leung was an over the counter sale. The defendant insists that it has no control over a customer who walks into its retail outlet, purchased the products and then brings them out of Malaysia or Singapore. Such sale was completed at the counter even though payment for the purchase could be by installments followed by subsequent delivery of the goods sold.

[15] The plaintiff disagrees with this. They argued that the territorial restriction clause in the third licence agreement is to prevent the products, which are trademarked goods, from being sold outside the allocated territory of each licensee. If this is not controlled, there would be a world wide free-for-all sale of the products by all licensees and would render the licence agreement nugatory. Thus, it is essential to consider cl 9.7 of the third licence agreement in this light and to interpret the transaction that had taken place between the defendant and Isaac Leung as an infringement of this clause.

[16] There is no dispute that the territorial restriction on exporting the products by the defendant is an essential feature of the third licence agreement. This is stated not only in cl 9.7 but also in other parts of this agreement. For instance, cl 2.1 provides that:

> subject to the terms and conditions of this Agreement, the licensor hereby grants to the licensee for the duration of this Agreement, *the exclusive right in Territory* to promote and distribute Products and to use the Trademarks for such purpose (but for no other purpose). (Emphasis added.)

[17] Then cl 2.3 states:

> Licensor hereby grants to the Licensee for the duration of this Agreement the non-exclusive right to manufacture Licensed Product *in Territory, provided that such Licensed Products manufactured hereunder shall be promoted and distributed only in Territory under this Agreement*. (Emphasis added.)

[18] This is followed by cl 2.4 which provides:

> Licensor hereby grants to the Licensee for the duration of this Agreement, the non-exclusive right to promote and distribute Products through *direct sales channel of Territory*, such as mail order, cable or satellite television shopping or internet shopping *for the promotion and sales in Territory*. (Emphasis added.)

[19] The importance of these provisions governing territorial restriction is best explained by PW1, the plaintiff's managing director as follows:

> The plaintiff appoints separate licensee of the trademarks for different countries. With separate licensee for different countries, it is necessary that the licensee does not encroach upon the designated territory of another licensee. For example, if the plaintiff's licensee in Thailand was allowed to sell his trademarked goods in Malaysia and Singapore, that would have been unfair and prejudicial to the defendant.
>
> More importantly, territorial restriction is necessary because the trademarked goods have different quality standards in different countries. The standard and quality of the trademarked goods for each country is determined by the plaintiff guided by factors such as consumer expectation and the selling price of the goods.
>
> … if the trademarked goods wrongfully exported are of a quality and a standard lower than the quality and standard prescribed for that market, the plaintiff's reputation and goodwill in the trademarks face serious risk of being irreparably damaged and injured. This is because purchasers in that market would have come to associate a certain quality and standard with goods of the trademarks and they would have wrongly led into thinking that there has been deterioration in standards. It is seriously damaging to the plaintiff for customers to think that products of the trademarks are no longer 'good'.

[20] This rational and principle were in fact accepted by the defendant when its chairman testified that he would not be happy if a consignment of the products was sent to Malaysia by a licensee of the products in another territory.

[21] Once this concept and rationale behind territorial restriction is accepted then cl 9.7 should be interpreted in the light of this spirit. Now what does cl 9.7 demands? That the defendant refrains directly or indirectly from exporting the products outside Malaysia and Singapore. Export means 'send out (goods or services) especially for sale in another country' — *The Concise Oxford Dictionary*. No doubt the customer in the person of Isaac Leung had purchased the goods over the counter but in the circumstances of this case, considering the spirit and intention of the parties as described, does this sale amounts to an export sale? We are of the view that no reasonable man having considered this entire transaction can say that this is not an export sale, directly or indirectly — see *Investors Compensation Scheme v West Bromwick Building Society* [1998] 1 All ER 98. Here, we have a customer in the person of Isaac Leung who is a foreigner. He purchased a large quantity of the products from the defendant. The transaction was done in a foreign currency (US dollar). He then informed the defendant's sales executive to ship the products to a nominated company in Hong Kong which is outside the restricted territories. The defendant acceded to this request and completed the shipping forms required for this purpose. Then there was the confirmation of the payment for balance of the purchase price by a foreign bank. This transaction far exceeds the ordinary man's perception of an over the counter sale. It must be an export sale. It has all the elements to constitute

one. We agree that each of these elements taken on their own may not be considered as export such as: the customer being a foreigner, the purchase was transacted in a foreign currency, the large quantity of products purchased, or even for that matter the assistance rendered in freighting the products overseas and the confirmation of the balance payment by an overseas bank. However, these taken in its entirety a reasonable man could not have come to any other conclusion except an export sale which is prohibited by the terms of the third licence agreement.

[22] The defendant seemed to have favoured and adopted a wide and liberal interpretation of cl 9.7 and considered any sale over the counter as non-infringement of this clause. But, this, in our opinion, is against the spirit and intention of the agreement. Clause 9.7 must be given a purposive interpretation that makes good commercial sense on what was agreed — see the case of *Miramar Maritime Corporation v Holborn Oil Trading Ltd* [1984] AC 676 and *Antaios Cia Naviera SA v Salen Rederierna* [1984] 3 All ER 229 at p 233. And since it was the spirit and intention of the parties to accept territorial restriction in their transaction, then the defendant should not have sought ways and means to bypass this or turn a blind eye to any sale made over the counter as one which does not infringe cl 9.7. The latter is willful blindness which is unacceptable since cl 9.7 demands the defendant to take all reasonable steps to ensure not only themselves but also their distributors, affiliates and/or subcontractors refrain from exporting directly or indirectly the products outside the restricted territories.

[23] The defendant has also argued that this sale should be considered in the light of s 5(1) of the Sale of Goods Act 1957. This provision reads:

> A contract of sale is made by an offer to buy or sell goods for a price and the acceptance of such offer. The contract may provide for the immediate delivery of the goods or immediate payment of the price or both, or for the delivery or payment by installments, or that the delivery or payment or both shall be postponed.

[24] What the defendant is trying to impress us is that the sale was completed at the counter and therefore cannot be considered as an export sale. But we do not see how this section of the Sales of Goods Act can assist the defendant's case. Even if a sale was made or completed at the counter, the question remains as to whether this sale violates cl 9.7 of the third licence agreement. As we have said, this depends on the nature of the sale and in this case, we have found the defendant had exported the products directly or indirectly outside its territory limits.

A **[25]** So our answer to the second question is in the affirmative.

[26] Having answered this, we now return to deal with the first question.

B **[27]** To begin, it is instructive to quote a passage from Jessel MR in *Smith v Day* (1882) 21 Ch D 421 at p 424:

> I will first say a few words as to the history and meaning of this kind of undertaking. It was invented by Lord Justice Knight-Bruce when Vice-Chancellor, and was originally inserted in ex parte orders for injunctions. It objective was, so
C to say, to protect the court as well as the defendant from improper applications for injunctions. If the evidence in support of the application supposed or misrepresented facts, the court was enabled not only to punish the plaintiff but to compensate the defendant. By degree of practice was extended to all cases of interlocutory injunctions. The reason for this extension was that when the
D application was disposed of upon notice, there was not the same opportunity for concealment or misrepresentation, still owing to the shortness of time allowed, it was often difficult for the defendant to get up his case properly, and as the evidence was taken by affidavit, and generally without cross-examination, it was impossible to be certain on which side the truth lay. The court therefore required the undertaking in order that it might be able to do justice if it had been induced to
E grant the injunction by false statement or suppression. I am of the opinion that the undertaking was not intended to apply where the injunction was wrongly granted, owing to the mistake of the court, as for instance where the Judge was wrong in his law. I think this is shown by the fact that such an undertaking is never inserted in a final order for an injunction.

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[28] More relevant to the issue at hand is the remark by Brett LJ in the same case (*Smith v Day*):

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> Again I am strongly of the opinion that the question whether an inquiry as to damages should be granted is within the discretion of the judge who originally tries the case, and that his discretion ought not lightly to be interfere with. In exercising this discretion the court should act as nearly as may be on fixed rules, of by analogy to fixed rules.

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[29] Lord Diplock's opinion in *F Hoffmann-La Roche & Co AG and others v Secretary of State for Trade and Industry* [1975] AC 295 has repeated much of what was said above and this has been reproduced in the Court of Appeal decision which we have highlighted. Thus, there is no necessity for us to
I repeat it.

[30] But more direct to the point we are getting at is the case of *Cheltenham & Gloucester Building Society (formerly Portsmouth Building Society) v Ricketts and others* [1993] 1 WLR 1545 at p 1544 where Peter Gibson LJ said:

This appeal raises a very important point affecting the practice of the court on the enforcement of undertakings as to damages given by the successful applicant for an interlocutory injunction when subsequently the injunction is shown to have been wrongly granted. The practice of requiring an undertaking as to damages from the applicant for such an injunction as the price for its grant was originated by the Court of Chancery as an adjunct to the equitable remedy of an injunction. There is an obvious risk of unfairness to the respondent against whom an interlocutory injunction is ordered at a time when the issues have not been fully determined and when usually all the facts have not been ascertained. The order might subsequently proved to have been wrongly made but in the meantime the respondent by reason of compliance with the injunction may have suffered serious loss from which he will not be compensated by the relief sought in the proceedings. The risk of such injustice is greater when the interlocutory injunction has been granted ex parte. The risk is particularly great with Mareva injunctions, granted as they are almost invariably ex parte, and frequently imposing severe restriction on the respondents' right to spend their money or otherwise dispose of their asset: such an injunction can have the effect of ruing a thriving business or of otherwise causing substantial financial loss to the respondent and were vividly described by Donalson LJ in *Bank Mellat v Nikpur* [1985] FSR 87 at p 92 as being, with the Anton Pillar order, one of the law's 'two 'nuclear' weapons'. The courts are properly concerned lest these weapons are used inappropriately and the undertaking in damages provides a salutary potential deterrent against their misuse.

The usual form of undertaking (which was in substance given by the building society in the present case) is 'to abide by any order which this court may make as to damages in case the court shall be of the opinion that the respondent shall have suffered any by reason of this order which the appellant ought to pay'. The form of the undertaking indicates that the court has discretion whether to enforce it at all and that discretion is not limited in any way. The power to enforce the undertaking being incidental to the power to grant an injunction (see *In Re Hailstone; Hopkinson v Carter* (1910) 102 LT 877 at p 880), the discretion will be exercised in accordance with ordinary equitable principles: see for example, Spry, *Equitable Remedies*, (4th Ed, 1990) pp 638–645. The undertaking is given to the court and not to the respondent, who can ask the court to enforce it but has no right to its enforcement nor any right to damages until the discretion is exercised in his favour and damages are awarded.

The law was stated by Lloyd LJ (with whom Stocker LJ and Sir George Waller agreed) in *Financiera Avenida v Shiblaq* (unreported, 7 November 1990), thus:

> Two questions arise whenever there is an application by the defendant to enforce a crossundertaking in damages. The first question is whether the undertaking ought to be enforced at all. This depends on the circumstances in which the injunction was obtained, the success of otherwise of the plaintiff at the trial, the subsequent conduct of the defendant and all the other circumstances of the case. It is essentially a question of discretion. The discretion is usually exercised by the trial judge since he is bound to know more of the facts of the case than anyone else. If the first question is answered in favour of the defendant, the second question is whether the defendant has suffered any damage by reason of the granting of the injunction. Here the ordinary law of contract applies both as to

A causation and to quantum: see *F Hoffmann-La Roche & Co AG and others v Secretary of State for Trade and Industry* [1975] AC 295 per Lord Diplock at p 361. In a simple case the trial judge may be able to deal with causation and quantum itself as soon as he has exercised his discretion. But in a more complicated case it may be necessary for him to order an inquiry as to damages either before himself, or before some other judge or before the master or registrar. Very occasionally may he find it necessary to leave over the exercise of the discretion.

[31] Generally, if an interlocutory injunction is wrongly obtained, such as a failure on the part of the applicant to disclose material evidence or through error or misapplication of the law, discretion should be in favour of the defendant for enforcing the undertaking. But, according to Peter Gibson LJ in the same case (*Cheltenham & Gloucester Building Society v Ricketts*), it could be otherwise if there are special circumstances. He cited a number of reported decisions on what constituted special circumstances. In *Smith v Day* and *Ex parte Hall* (1883) 23 Ch D 644, the respondent had delayed seeking an inquiry as to damages. Then in *Hessin v Coppin* (1874) 21 Gr 253, which is a Canadian case, the interlocutory injunction was granted on the basis of the validity of the patent but the motion to continue with the injunction was dismissed when the patent was found to be invalid. In *Modern Transport Company Limited v Duneric Steamship Company* [1917] 1 KB 370 at p 380, Swinfen LJ ruled that the inequitable conduct of the defendant constituted special circumstances such that no inquiry as to damages was to be granted even if the claim for the injunction could not be sustained at trial; but he held that the plaintiff was justified in applying for the interlocutory injunction. In another Canadian case of *Upper Canada College v City of Toronto* (1917) 40 OLR 438, the court refused inquiry as to damages because of a number of circumstances which included the good faith of the plaintiff and the fact that no costs was awarded against them. Then in *Attorney General of Ontario v Harry* (1982) 25 CPC 67, a factor taken into account for not enforcing undertaking as to damages was the inequitable conduct of the defendant. And then borrowing the phrase used by Truner LJ in *Newby v Harrison* (1861) 3 De GF & J 287 at p 290: 'there may be cases in which the court will not consider it just to enforce an undertaking, though the jurisdiction to do so exists.'

[32] Based on these authorities, it is our considered opinion that whether an inquiry as to damages should be ordered lies with the discretion of the trial judge. It is not for the defendant to insist that such inquiry should be made. The undertaking to damages for an interlocutory injunction is given to the court and not to the defendant. The trial judge is the best equipped to decide on whether to order an inquiry as to damages since he has an adequate knowledge of the facts of the case. He is even allowed to defer the exercise of

this discretion until the end of the trial — see *Financiera Avendia v Shiblaq* (unreported, 7 November 1990). As a general rule, if an interlocutory injunction is wrongly granted, the trial judge should make an order for inquiry to damages on the undertaking given by the plaintiff for the interlocutory injunction. But if there are special circumstances, the trial judge can exercise his discretion to refuse ordering such inquiry. The special circumstances disclosed by Sir Peter Gibson LJ in *Cheltenham & Gloucester Building Society v Ricketts* can be adopted as a guide but these are not exhaustive. Much depends on the facts and circumstances of each case.

[33] In our instant case, we find that the discretion of the trial judge in refusing to order an inquiry to damages should not be disturbed for the following reasons: The first and second ex parte Anton Pillar orders were indeed set aside but they were on the basis of a defective affidavit rather than on merit. At the inter parte hearing for the Anton Pillar order, the plaintiff's application was allowed. This shows that the plaintiff had merits in its application for an interim injunction, and the two earlier ex parte orders were set aside merely on technical ground. Further, upon final determination of the case at the end of the trial, the trial judge found in favour of the plaintiff and ordered the injunction sought to remain permanent. This fortified the plaintiff's claim that the injunction sought from the very beginning is not without merit.

[34] We would also like to state that the trial judge had correctly taken into account the conduct of the defendant subsequent to the ex parte injunctions obtained by the plaintiff when deciding not to order an inquiry to damages. Instead of abiding by the terms of the orders, the defendant violated these orders and continued to sell the products in its shop. Such activity continued until the plaintiff obtained an order demanding the defendant to surrender the products. Such misdeed is another factor for refusing an inquiry as to damages.

[35] The Court of Appeal also took into consideration the defendant's clandestine activity in exporting the products outside its territorial restriction as a factor in justifying the trial judge's decision for not ordering an inquiry to damages. We approve of this approach. Since all facts and circumstances of the case must be taken into consideration in the exercise of the discretion, surely the nature of the plaintiff's claim forms part of it.

[36] Based on the reasons aforesaid, we answer the first question posed to us in the negative.

CONCLUSION

[37] Accordingly, we dismiss this appeal with costs to the plaintiff. Deposit for this appeal should be to the plaintiff on account of taxed costs.

A **[38]** Before we end, we would like to express our sincere gratitude to Ms Linda Wang, counsel for the plaintiff, for her excellent oral and written presentation in this case. These, together with those from the defendant's counsel, Mr Jagjit Singh, who also performed remarkably, have assisted us enormously in our deliberation.

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Appeal dismissed with costs.

Reported by Andrew Christopher Simon

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